



0000036795

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

2002 AUG 29 A 10:14

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

DOCKETED

AUG 29 2002

AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED BY

msc

IN THE MATTER OF REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES.

DOCKET NO. RT-00000H-97-0137

**REPLY TO STAFF'S RESPONSE TO
MOTION TO CONSOLIDATE AND
MOTION FOR RECONSIDERATION**

Citizens Communications Company, Navajo Communications Company, Inc., Citizens Telecommunications Company of White Mountains, Inc., dba Frontier Communications of White Mountains and Citizens Utilities Rural Company, Inc., dba Frontier Citizens Utilities Rural (collectively, "Citizens Communications"), hereby replies to the Opposition of Commission Staff to Citizens Communications' Motion to Consolidate and Motion for Reconsideration. On August 1, 2002, Citizens Communications moved the Arizona Corporation Commission ("Commission") pursuant to AAC Rule 14-109(H) to consolidate Docket No. RT-00000H-97-0137 ("AUSF matter") with Docket No. T-00000T-00-0672 ("Access matter"). On or about August 19, 2002, Staff filed its Opposition stating "Citizens had ample opportunity to raise this issue before now, when both proceedings are well underway."

Citizens Communications respectfully disputes Staff's contention that Citizens Communications waited until this time to raise the issues of consolidation. First, on November 9, 2001, Citizens Communications raised this issue in the AUSF matter when it docketed two letters dated November 2, 2001. The first letter was addressed to Ms. Sonn Ahlbrecht advising Staff that Curt Hutsell, Ph.D. ("Mr. Hutsell") was to be put on the AUSF

1 mailing list. The second letter contained recommendations by Mr. Huttshell, specifically:
2 “because of the conflicts between federal and state regulatory policies, Citizens
3 Communications recommends the Commission consolidate this docket with its Access Charge
4 Reform docket (both dockets are currently open).” (See, Correspondence dated November 2,
5 2001, attached as “Exhibit A”).

6 Further, on March 7, 2002, Citizens Communications submitted comments in the
7 Access matter whereby in response to Question No. 14, Citizens Communications replied “it
8 is imperative that the Commission address AUSF reform simultaneously with restructuring
9 access charges, and Citizens strongly recommends that the Commission consolidate the AUSF
10 docket and this docket.” (See, Citizens Communications Company’s comments in Access
11 Cost Docket, Docket No. T-00000D-00-0672 attached as “Exhibit B”). In response to
12 Question No. 23, Citizens Communications responded “consolidation of these two dockets
13 would ensure that the final decisions in both areas were consistent and in the best interests of
14 the public.” (See, Exhibit B.)

15 On April 5, 2002, in response to Staff’s procedural recommendations in the Access
16 matter, Citizens Communications stated, “as in its initial comments, Citizens again requests
17 that the Commission consolidate this docket with its pending AUSF Rule Revision, Docket
18 No. RT-00000H-97-0137.” (See, Correspondence dated April 5, 2002 from Mr. Huttshell to
19 Corporation Commissioners and Staff, attached as “Exhibit C”).

20 Further, Mr. Huttshell attended the AUSF matter workshop conducted on February 5,
21 2002, held in the Commission Main Hearing Room. At that workshop, Mr. Huttshell repeated
22 Citizens Communications’ position that Citizens Communications believed that AUSF and
23 Access Dockets should be consolidated. According to the notes prepared by Mr. Hutsell at
24 that workshop, the Staff members in attendance included Ms. Maureen Scott, Mr. Tim Sabo,
25 Mr. Mark DiNunzio, Mr. Richard Boyles, Ms. Marta Kalleberg, and Ms. Ahlbrecht.

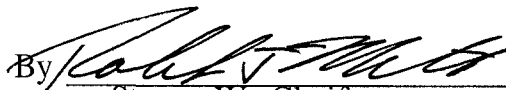
1 Further, there were many industry representatives in attendance including representatives from
2 AT&T, Qwest, Cox, Valley Telephone and Table Top Telephone.

3 Finally, on or about June 28, 2002, Mr. Huttshell submitted direct testimony in the
4 Access Docket. On page 15, Mr. Huttshell testifies "it is imperative that the Commission
5 address AUSF Reform simultaneously with restructuring access charges, and Citizens strongly
6 recommends that the Commission consolidate the AUSF docket and this docket. In the
7 alternative, the two dockets should proceed concurrently." (See, Direct Testimony of Curt
8 Huttshell, Citizens Communications, Docket No. T-00000D-00-0672, dated June 28, 2002
9 attached as "Exhibit D").

10 Contrary to Staff's contention, Citizens Communications has in fact raised the issue of
11 consolidation in both dockets on several occasions. It has always been Citizens
12 Communications' contention that in the high-cost, rural areas of Arizona, preserving and
13 extending universal service has depended upon support from toll and access rates, particularly
14 access rates. Because competition and conflicting regulatory policies have already reduced the
15 amount of support provided by toll rates and seriously threatens the adequacy of support from
16 exchange access charges, it is Citizens Communications' position that these two dockets are so
17 closely intertwined as to be inseparable. State access charges have traditionally provided
18 implicit support for basic local exchange services. Citizens Communications' three Ilec
19 affiliates are heavily dependent upon access revenue. In contrast, the AUSF is a form of
20 explicit support for basic local exchange service. Combining AUSF reform with Access
21 reform offers the opportunity to substitute explicit for implicit support. Because Citizens
22 Communications believes these dockets are so related, consolidation would be proper.

1 RESPECTFULLY SUBMITTED this 28 day of August, 2002.

2 CHEIFETZ & IANNITELLI, P.C.

3
4 By 

5 Steven W. Cheifetz
6 Robert J. Metli
7 3238 North 16th Street
8 Phoenix, Arizona 85016
9 Attorneys for Citizens
10 Communications Company

11 Original and eighteen (11) copies of the foregoing
12 filed this 28 day of August, 2002, with:

13 Docket Control
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 Copies of the foregoing hand-delivered
18 this 28 day of August, 2002, to:

19 Lyn Farmer, Chief Hearing Officer
20 ARIZONA CORPORATION COMMISSION
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23 Chris Kempley, Chief Counsel
24 Legal Division
25 ARIZONA CORPORATION COMMISSION
26 1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
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1200 West Washington Street
Phoenix, Arizona 85007

All parties of record on the service list

By 

F:\CLIENTS\Citizens Communications\Arizona Universal Service Fund Docket\Reply 08 26 02 kk.doc

CERTIFICATE OF SERVICE
FOR THE COST OF TELECOMMUNICATIONS ACCESS,
DOCKET NO. T-000000D-00-00672

Original and eleven (11) copies of the foregoing filed this 24th day of August, 2002, with the:

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street
Phoenix, Arizona 85007-2996

Copies of the foregoing hand-delivered this 24th day of August, 2002, to:

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Copy of the foregoing mailed this 24th day of August, 2002 to:

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CERTIFICATE OF SERVICE
FOR THE REVIEW AND POSSIBLE REVISION OF THE ARIZONA UNIVERSAL
SERVICE FUND RULES,
DOCKET NO. RT-00000H-97-0137

Original and eleven (11) copies of the foregoing filed this 28th day of August, 2002, with the:

Arizona Corporation Commission
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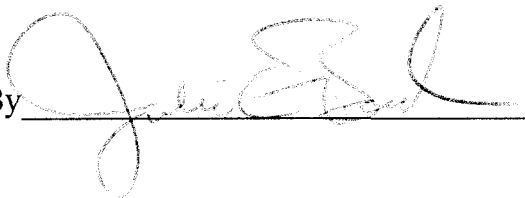
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Curt Huttsel, PhD.
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By

A handwritten signature in dark ink, appearing to read "Curt Huttsel", is written over a horizontal line. The signature is fluid and cursive.

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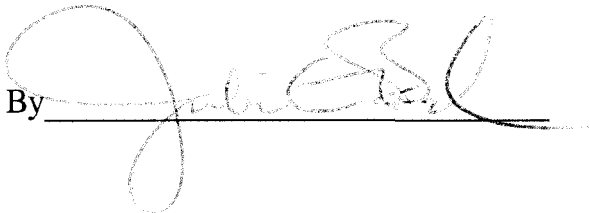
By 

Exhibit *A*

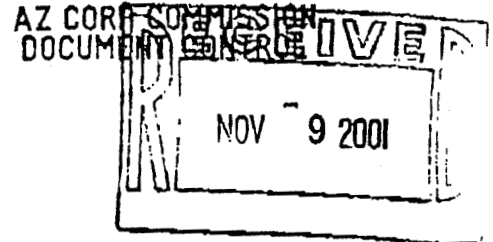


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RECEIVED

2001 NOV -2 P 4: 35

November 2, 2001



Ms. Sonn Ahlbrecht
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**Re: Docket No. RT-00000H-97-0137, Review and Possible Revision of
Arizona Universal Service Fund Rules**

Dear Ms. Ahlbrecht:

Please include my name on the formal service list in the AUSF review docket, RT-00000H-97-0137. My mailing address is as follows:

Curt Huttzell
Citizens Communications
4 Triad Center, Suite 200
Salt Lake City, UT 84180

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Curt Huttzell".

Curt Huttzell
Director, State Government Affairs

CITIZENS
communications



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November 2, 2001

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**Re: Docket No. RT-00000H-97-0137, Review and Possible Revision of
Arizona Universal Service Fund Rules**

To Whom It May Concern:

This letter constitutes Citizens Communications' ("Citizens") comments on the Arizona Universal Service Fund ("AUSF") rules, as requested by the Commission Staff in its September 20th memorandum from Mr. Steve Olea. Citizens agrees with the initial comments filed in this docket by the newly formed Arizona Local Exchange Carriers Association ("ALECA"), of which Citizens is a member. In addition, Citizens would like to supplement those comments in one important respect. Specifically, Citizens believes that access charge reform should accompany any modification of the Commission's AUSF rules.

AUSF Restructuring and Access Charge Reform

Statement of Issue

The most commonly understood meaning of universal service is the widespread availability of affordable basic local exchange service. In the high-cost, rural areas of Arizona, preserving and extending universal service has depended upon support from toll and access rates, particularly access rates. However, the support provided by toll and access is no longer sustainable in the presence of competition and changing federal regulatory policies. Equal access has already driven intraLATA toll rates closer to cost and substantially lessened their contribution to the affordability of basic service. Federal regulatory policy continues to reduce interstate access charges and widen the disparity between intrastate and interstate rates, setting up even more powerful incentives for interexchange carriers to misreport the jurisdictional nature of long-distance traffic. In short, competition and conflicting regulatory policies have already reduced the amount of support provided by toll rates and seriously threaten the adequacy of support from exchange access charges.

● Page 2

November 1, 2001

Recommendation

Because of the conflicts between federal and state regulatory policies, Citizens recommends the Commission consolidate this docket with its access charge reform docket (both dockets are currently open). At the very least, Citizens believes these two dockets should proceed along parallel paths. In either a consolidated or concurrent fashion, considering AUSF and access charge reform simultaneously allows the Commission to replace diminished support from exchange access with explicit support from universal service funding.

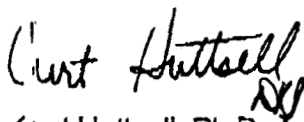
Benefits of Recommendation

Moving toward greater explicit support from the AUSF would contribute significantly toward the preservation of universal service in rural Arizona. Unless reliance upon access charges as a means of promoting universal service is lessened, widely available basic local exchange service at affordable rates is seriously threatened in high-cost, rural areas. Basic local exchange rates may have to rise significantly above current levels to replace traditional sources of support, or rural carriers, such as Citizens' three Arizona affiliates, may not be able to generate the funds necessary to maintain, improve, and expand their local operations. Greater AUSF support is a fair and effective explicit replacement for the current system of implicit support.

Conclusion

For all of the foregoing reasons, Citizens urges the Commission to proceed concurrently with universal service and access charge reform. Moreover, Citizens concurs with ALECA that AUSF support should become available to rural carriers, like its three Arizona affiliates, without the necessity of filing a rate case.

Sincerely,



Curt Huttzell, Ph.D.

Director, State Government Affairs

Exhibit *B*

08/21/02 WED 11:57 FAX 801 5530905

CITIZENS COMMUNICATIONS

002

CITIZENS
communications



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RECEIVED

2002 MAR -8 P 4:43

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

March 7, 2002

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**Re: In the Matter of the Investigation of the Cost of Telecommunications
Access, Docket No. T-00000D-00-0672**

To Whom It May Concern:

With this letter, Citizens Communications submits its comments in the Commission's Access Cost Investigation, Docket No. T-00000D-00-0672. Citizens submits these comments on behalf of its three incumbent local exchange carrier affiliates operating in Arizona: (1) Frontier Citizens Utilities Rural (f/k/a Citizens Utilities Rural Company), T-01954B, (2) Frontier Communications of the White Mountains (f/k/a Citizens Telecommunications Company of the White Mountains, T-03214A and (3) Navajo Communications Company, T-02115A.

Sincerely,

Curt Huttshell
CHR

Curt Huttshell, Ph.D.
State Government Affairs

Enclosures

cc: Service List

Not applicable.

- 12. Do you believe that it would be possible to eliminate the potential that local exchange service providers can exert monopoly power in the access service market by assessing the switching, transport and CCL charges on the end users rather than on the interexchange carriers? Could customers then shop for local exchange service customers for the least cost provider of access in addition to local service, etc.?**

No. Monopoly power may be defined as the ability to control price and exclude competitors. To the extent an ILEC may possess monopoly power, the sources of this power are not stemmed by having the ILEC levy exchange access charges against retail customers instead of IXCs. To the contrary, in a completely deregulated market for exchange access, any monopoly power possessed by ILECs would be partly, if not wholly, offset by the monopoly power exercised by the dominant IXCs.

- 13. Do you believe that there is a difference in the costs of providing interstate-switched access versus intrastate-switched access service? In your response, please include a description of how costs are defined in your response and how those costs relate to costs allocated to the intrastate jurisdiction under the FCC's Separations rules.**

No. There is no difference between the costs of supplying interstate and intrastate-switched access when costs are defined as incremental. In contrast, the FCC's Separations rules assign embedded costs between the state and interstate jurisdictions using FDC methods. While some method is necessary to determine how much of a company's revenue requirement should be recovered from each jurisdiction, FDC methods should not be used to fix maximum, minimum or precise rates.

- 14. In the CALLS Decision, the FCC implemented changes that would eliminate carrier common line charges and establish an interstate universal service support mechanism. Do you believe that the Commission ought to address the Arizona Universal Service Fund mechanism concurrent with the reform of intrastate access charges?**

Yes. It is imperative that the Commission address AUSF reform simultaneously with restructuring access charges, and Citizens strongly recommends that the Commission consolidate the AUSF docket and this docket. In the alternative, the two dockets should proceed concurrently. At the very least, the Commission must recognize that the issues raised in the two dockets are inextricably intertwined. Citizens respectfully reminds the Commission of its November 1, 2001 comments in Docket No. RT-00000H-97-0157:

...In the high-cost, rural areas of Arizona, preserving and extending universal service has depended upon support from toll and access rates, particularly access rates.

However, the support provided by toll and access is no longer sustainable in the presence of competition and changing federal regulatory policies. Equal access has already driven intraLATA toll rates closer to cost and substantially lessened their contribution to the affordability of basic service. Federal regulatory policy continues to reduce interstate access charges and widen the disparity between intrastate and interstate rates, setting up even more powerful incentives for interexchange carriers to misreport the jurisdictional nature of long-distance traffic. In short, competition and conflicting regulatory policies have already reduced the amount of support provided by toll rates and seriously threaten the adequacy of support from exchange access charges...

Moving toward greater explicit support from the AUSF would contribute significantly toward the preservation of universal service in rural Arizona. Unless reliance upon access charges as a means of promoting universal service is lessened, widely available basic local exchange service at affordable rates is seriously threatened in high-cost, rural areas. Basic local exchange rates may have to rise significantly above current levels to replace traditional sources of support, or rural carriers, such as Citizens' three Arizona affiliates, may not be able to generate the funds necessary to maintain, improve, and expand their local operations. Greater AUSF support is a fair and effective explicit replacement for the current system of implicit support.

15. The FCC released its Access Charge Reform Order ("MAG Order") for rate of return companies on November 8, 2001. Please comment on the extent to which you believe the ACC should adopt any components of the MAG Order.

In its MAG Order, the FCC took three steps affecting rate-of-return carriers that Citizens recommends this Commission follow in Arizona. First, the FCC removed the CCL charge from the interstate access charge rate structure. In doing so, the FCC found the CCL charge to be an inefficient cost recovery mechanism and concluded removing it would move switched access rates toward lower, cost-based levels.²

Second, the FCC's MAG Order increased the ceilings it had placed on Subscriber Line Charges ("SLCs") for residential and single-line business local exchange services. SLCs are flat monthly fees assessed on access lines and intended to recover common line (*i.e.*, access line) costs. Increasing SLCs has the same effect on subscribers as increasing basic local exchange rates. When ordering this second step,

² MAG Order at ¶¶ 15 and 40-41.

the FCC repeated its earlier conclusion that common line costs should be recovered on a flat-rated instead of a per-minute basis because these costs do not vary with usage.³

Third, the FCC substituted a new universal service support mechanism to replace the implicit support lost by eliminating CCL charges. It is called the Interstate Common Line Support mechanism and is intended to make up for the difference between the carriers' common line (i.e., access line) costs and the revenue produced by SLC charges.⁴ This Commission should take similar steps in Arizona. To the extent that removing CCL rates from intrastate access tariffs reduces carriers' revenues, the reduction should first be made up from local rate increases and secondarily from the AUSF.

16. Should the Commission address CLEC access charges as part of this Docket?

Yes.

17. Should additional considerations be taken into account when restructuring and/or setting access charges for small rural carriers? Please explain your response.

Please see Citizens' response to Question 14 above.

18. What is the effect of Qwest's Price Cap Plan on the issues raised in this proceeding as they pertain to Qwest? With regard to Qwest, switched access is a Basket 2 service and special access is a Basket 3 service. What impact does this have, if any, on restructuring access charges in this proceeding, as it would pertain to Qwest?

Citizens does not have a comment on this issue at this time.

19. With regard to Qwest, what impact would Qwest receiving Section 271 authority have on the issues raised in this proceeding? Please explain your response.

Citizens does not have a comment on this issue at this time.

20. One of the stated objectives of the Qwest Price Cap Plan was to achieve parity between interstate and intrastate access charges. Is this something that should be looked at by the Commission in this proceeding?

Yes. Matching the federal access rate structure and moving toward the federal access rate level would result in bringing state access charges into closer alignment with incremental costs. As explained in response to Question 2 above, ILECs should not have to file rate cases to recover any reduction in total revenue as a result of moving

³ MAG Order at ¶¶ 15 and 42-43.

⁴ MAG Order at ¶¶ 15 and 128.

toward the level and structure of interstate access rates. Revenue reductions should first be made up from rebalancing basic local exchange rates and then from the AUSF.

21. Are there other issues besides the rate restructuring and costing issues raised herein that should be addressed by the Commission in this Docket?

Yes. Please see Citizens' response to Question 14 above.

22. Are there other State proceedings and/or decisions that you would recommend the Commission examine before it proceeds with this Docket? Please attach any relevant State commission decisions to your comments.

Yes. The Commission should examine the issues raised by the parties that filed comments in its AUSF Reform Proceeding, Docket No. RT-00000H-97-0137.

23. Please provide your recommendations for a procedural schedule in this case.

Citizens recommends that the Commission hold workshops with all interested parties and allow the interested parties the opportunity to provide written responses to any proposals that are a result of those workshops. Citizens respectfully requests that interested parties be given sufficient time to prepare written comments, particularly because at Citizens, there are several levels of review before a document is submitted to the Commission. Because of the importance of this issue, a minimum of a 30-day period for written comments would be reasonable.

As noted previously, Citizens believes that the AUSF reform issue should be analyzed in the context of access reform. Consolidation of those two dockets would insure that the final decisions in both areas were consistent and in the best interest of the public.

Because this is an important issue, Citizens urges the Commission to set a procedural schedule that will allow for the necessary dialogue between parties and full briefing of legal issues. This is not a matter that should be rushed to a final decision, but instead should be fully analyzed and discussed, so a thoughtful and prudent final determination can be made.

With the foregoing recommendations in mind, Citizens proposes the following procedural schedule leading up to a final recommendation from the Staff:

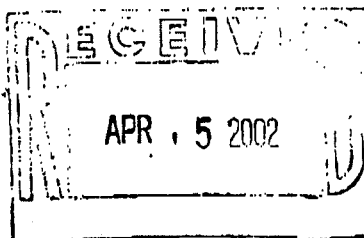
- 4/12/02: The Staff holds a Workshop to address:
 - The nature and scope of the proceeding, including:
 - Whether it should become a rulemaking or remain a generic investigation,
 - Whether it should be consolidated with the AUSF docket;

Exhibit C

08/21/02 WED 11:51 FAX 801 5530905

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April 5, 2002

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TRCL

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1200 West Washington Street
Phoenix, Arizona 85007

**Re: In the Matter of the Investigation of the Cost of Telecommunications
Access, Docket No. T-00000D-00-0672**

Dear Corporation Commissioners and Staff:

On March 28, 2002, Staff submitted its recommendation and proposed procedural schedule in the Access Cost Investigation, Docket No. T-00000D-00-0672. In accordance with the January 16, 2002, Procedural Order in that docket, this letter responds to the Staff's recommendation and proposed procedural schedule. Citizens submits its response on behalf of its three incumbent local exchange carrier ("ILEC" affiliates operating in Arizona: (1) Frontier Citizens Utilities Rural (f/k/a Citizens Utilities Rural Company), T-01954B, (2) Frontier Communications of the White Mountains (f/k/a Citizens Telecommunications Company of the White Mountains), T-03214A and (3) Navajo Communications Company, T-02115A.

Citizens agrees with Staff that the Access Cost Investigation should be a generic proceeding and welcomes the opportunity to file written testimony as recommended by Staff. While ambitious in light of the complex issues raised, Staff's proposed procedural schedule seems workable at this time. Citizens' only apprehension is its limited resources, which could be heavily taxed should it become necessary to address equally significant issues arising in other dockets over the course of this Spring and Summer.

As in its initial comments, Citizens again requests that the Commission consolidate this docket with its pending AUSF Rule Revision, Docket No. RT-00000H-97-0137. The issues raised in both dockets are inseparably linked. Access charge revenues have long constituted an important form of implicit support for basic local exchange service provided by Arizona's rural ILECs. For the reasons given in its comments in both proceedings, Citizens believes that it is in the public interest to replace the existing implicit support from exchange access with explicit support from the AUSF. The Staff's March 28, 2002, recommendation seems to recognize this linkage when it asks those proposing elimination of CCL charges to estimate the amount of AUSF support that might be needed to offset the resulting loss of revenue.

● Page 2

April 5, 2002

Finally, Citizens would like to take this opportunity to clarify its initial comments in this docket in one respect. Citizens also agrees with the Staff that the principal focus of the Access Cost Investigation should be on switched access, not special access. Citizens did not intend to suggest by its comments on Issue/Question No. 3 that special access rates are in need of reform, only that switched and special access services are to a certain extent substitutes for one another.

An additional copy of this letter is enclosed. Please stamp this copy received and return it in the enclosed stamped, self-addressed envelope.

Sincerely,



Curt Huttzell, Ph.D
State Government Affairs

Exhibit D

BEFORE THE ARIZONA CORPORATION COMMISSION

**WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER**

**IN THE MATTER OF THE)
INVESTIGATION OF THE COST) DKT. NO. T-00000D-00-0672
OF TELECOMMUNICATIONS ACCESS)**

DIRECT TESTIMONY OF

CURT HUTTSELL, PH.D.

CITIZENS COMMUNICATIONS

JUNE 28, 2002

1
2 to maintain universal service is determined, it should be funded in a way
3 that is efficient and distorts the competitive process as little as possible.
4

5 This objective itself requires that the provision of universal service and the
6 contribution assessment be borne by all competitors -- both incumbents
7 and new entrants -- in a manner that preserves each competitor's relative
8 efficiency as it vies for the patronage of customers in the market. When
9 firms compete in the telecommunications market, all firms should either
10 provide the facilities necessary for universal service or contribute to the
11 carrier(s) having the universal service obligations, on an equitable and
12 nondiscriminatory basis. The incumbents' retail services should not be
13 required to bear more (or less) of the funding burden than the new
14 entrants' substitute services. In addition, it is desirable to use recovery
15 mechanisms that are easy to understand and require minimal regulatory
16 oversight once established.
17

18 Q. How should the Commission consider Citizens' recommendations regarding
19 greater AUSF support for basic local exchange service?

20 A. It is imperative that the Commission address AUSF reform simultaneously
21 with restructuring access charges, and Citizens strongly recommends that
22 the Commission consolidate the AUSF docket and this docket. In the
23 alternative, the two dockets should proceed concurrently. At the very least,
24 the Commission must recognize that the issues raised in the two dockets
25 are inextricably intertwined.
26

27 Q. Should the Commission require Citizens to file a general rate case to
28 implement local rate increases, SLCs or increased AUSF support?

29 A. Citizens contends that under no circumstances should ILECs be required to